

To: Scheme creditors and other interested parties

Brokers, agents and intermediaries are encouraged to bring this report to the attention of their clients.

31 May 2011

KWELM - 17th Report to creditors - year to 31 December 2010

This letter aims to provide creditors and other interested parties with a summary of the progress made with the run-off since our last report, which covered the year to 31 December 2009.

Income amounting to \$4 million was generated in the year to 31 December 2010, principally comprising reinsurance recoveries of \$4 million, with a negligible amount of investment return reflecting the prudent basis on which realised assets are held and the market returns available. Realised assets on hand at the end of December 2010 increased by \$1 million to a total of \$49 million, of which \$32 million was held in an Indemnification Trust pursuant to section 10.3 of the Scheme. To date creditors have received benefits of \$3.6 billion from the estates.

The current payment percentages (last reset in 2009) are shown in the table. As Walbrook's and El Paso's payment percentages have reached 100%, the Scheme Administrators made, in 2006 and 2009, Interest Payments under clause 3.3.3 of the Scheme to the creditors of Walbrook and El Paso totalling \$133 million and \$3 million respectively.

The cumulative sum of scheme payments, adjusting payments and interest paid to Scheme Creditors represents an average recovery of 100.6% of Established Scheme Liabilities (see Appendix note 2 for a summary of Established Scheme Liabilities and payments to date).

We will continue to generate a small level of additional income from reinsurance recoveries and investment return. We expect to pay a further and final distribution from any remaining funds, including the residual elements of the \$32 million held in the Indemnification Trust. This final payment will be made in 2012 and is unlikely to be more than an additional one or two percent to Kingscroft's, Lime Street's and Mutual's creditors. In the case of Walbrook and El Paso any payments to their creditors will comprise additional interest under clause 3.3.3 of the Scheme.

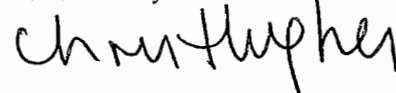
We continue to work closely with the Creditors' Committee (see Appendix). We are most grateful to all the members of the Committee for the significant contribution they have made in assisting us with the successful run-off of the KWELM estate.

We have agreed with the Creditors' Committee that it is not appropriate to hold an annual meeting of the creditors this year.

If you have any outstanding questions, concerns, or issues please contact us directly at the above address, further details are available through our website (www.kwelms.com).

In September 2010, we relocated our offices from America Square and all correspondence for the Scheme Administrators or for our run-off agents (KMS Insurance Management Ltd) should now be sent to the address at the top of this letter. Please note that the telephone numbers have changed as well.

Thank you
Yours sincerely



Chris Hughes



Chris Reynolds

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Website: www.kwelms.com
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Payment percentages	%
Kingscroft	84
Walbrook	100
El Paso	100
Lime Street	87
Mutual	75

Kingscroft Insurance Company Ltd (number 1277975), Walbrook Insurance Company Ltd (number 1044810), El Paso Insurance Company Ltd (number 1324414) and Lime Street Insurance Company Ltd (number 1449248) are registered in England and Wales. Mutual Reinsurance Company Ltd is registered in Bermuda (number 03071) and in England and Wales as an overseas company (number F7776).

CJ Hughes and CG Reynolds have been appointed Scheme Administrators of Kingscroft Insurance Co Ltd, Walbrook Insurance Co Ltd, El Paso Insurance Co Ltd, Lime Street Insurance Co Ltd and Mutual Reinsurance Co Ltd.

Registered Office of Kingscroft, Walbrook, El Paso and Lime Street and UK branch address of Mutual: The Quadrant, 118 London Road, Kingston upon Thames Surrey KT2 6QJ, United Kingdom.

- 1) The following table summarises the income and payments for the years to 31 December 2010 and 2009 and the cumulative figures from the date of the Scheme Administrators' appointment in 1992 until 31 December 2010.

	Year to 31 December 2010 \$m	Year to 31 December 2009 \$m	Cumulative to 31 December 2010 \$m
Realised assets at start of period	<u>48</u>	<u>68</u>	<u>576</u>
Income and expenses			
Reinsurance recoveries	4	4	2,237
Investment return (including unrealised \$1m exchange loss (2009 gain of \$2m) on £ held to cover future £ expenses)	0	4	1,061
Other	<u>0</u>	<u>0</u>	<u>245</u>
Total income	4	8	3,543
Net administration costs	<u>(3)</u>	<u>(2)</u>	<u>(463)</u>
Excess of income over expenses	<u>1</u>	<u>6</u>	<u>3,080</u>
Payments to creditors			
Scheme and interest payments to creditors	0	(26)	(2,896)
LoC drawdowns and other payments to creditors	<u>0</u>	<u>0</u>	<u>(711)</u>
Total payments to creditors	<u>0</u>	<u>(26)</u>	<u>(3,607)</u>
Realised assets at the end of the period	<u>49</u>	<u>48</u>	<u>49</u>

- 2) The following table summarises the Established Scheme Liabilities and payments made to 31 December 2010.

	Established Scheme Liabilities \$m	Scheme and adjusting payments \$m	Interest paid \$m	Unpaid Established Scheme Liabilities \$m
Kingscroft	592	553	0	39
Walbrook	1,278	1,278	133	0
El Paso	323	323	3	0
Lime Street	226	216	0	10
Mutual	<u>455</u>	<u>385</u>	<u>0</u>	<u>70</u>
	<u>2,874</u>	<u>2,755</u>	<u>136</u>	<u>119</u>

3) Members of the Creditor ³ Committee	Representatives
The International Policyholders Association*	W. D. Hilton Jr. (Chairman)
Financial Services Compensation Scheme	Ted Boucher
FOJP Service Corporation*	Joel Glass
The Hartford Insurance Group	William Kingston
TIG Insurance Company	Dennis Gibbs
Transit Casualty Company (in receivership)	Albert Riederer
* representing a number of creditors	